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Sen. Christopher J. Dodd on Wednesday proposed setting up a new federally backed corporation to buy troubled mortgages and help struggling borrowers stay in their homes.

The company would buy the mortgages at market values, meaning it would be buying at a “steep discount,” said Dodd, who chairs the Banking, Housing and Urban Affairs Committee.

“The discounts would then be passed on to homeowners in the form of new, lower-balance mortgages insured by [the Federal Housing Administration] or backed by the housing government-sponsored enterprises,” such as Fannie Mae or Freddie Mac, Dodd said in a letter to Senate Majority Leader Harry Reid.

The refinanced mortgages would be 30-year fixed-rate loans. Dodd, a Connecticut Democrat, suggested an initial capitalization of \$10 billion to \$20 billion for the company.

He said the program could be part of a larger response to the subprime mortgage crisis, rather than included in an economic stimulus package lawmakers are trying to assemble with the White House.

Speaking to reporters, Dodd said the stimulus should include several housing measures, such as \$10 billion for Community Development Block Grants, a modernization of the FHA and allowing Fannie Mae and Freddie Mac to buy loans larger than the current limit of \$417,000.

So far, Bush administration officials and congressional leaders have talked of a relatively spare stimulus package, made up mostly of tax rebates and business tax incentives.

Bailout Backlash

On the mortgage front, lawmakers have been seeking ways to help subprime borrowers facing foreclosure or the loss of their homes. Millions of those borrowers took out adjustable-rate loans, then found they were unable to make the payments once interest rates shot up.

Dodd's new plan could face objections from lawmakers concerned about a potential bailout for speculative subprime borrowers who were looking to turn a quick profit during the real estate boom.

Alex J. Pollock, a resident fellow at the conservative American Enterprise Institute, said the benefits of a government-backed program could outweigh the drawbacks, given the grim housing market, but he stressed that any program would need to be temporary.

"This is the kind of thing you can do in a crisis when you have a serious risk of a downward, self-reinforcing spiral," Pollock said.

Dodd said that by buying mortgages at low prices, the program could ensure that lenders and investors had to take a "haircut" — without offering a bailout.

Andrew Jakabovics, associate director of the Economic Mobility Program at the left-leaning Center for American Progress, cheered the proposal.

"It would help stabilize communities by preventing further price declines as a result of these foreclosures," Jakabovics said.

The plan is similar to legislation (HR 4135) that Joe Baca, D-Calif., introduced in the House. Both plans are based on historical precedent: the Home Owners' Loan Corporation that Congress created during the Great Depression.

Essentially, that corporation acquired defaulted mortgages at depressed market values, in exchange for bonds issued by the company. The company then refinanced the loans under

terms more affordable for the borrower.

On Wednesday, Rep. Mark Steven Kirk called for a temporary re-establishment of the Home Owners' Loan Corporation.

“The Corporation was a temporary institution that stopped a crisis, kept Americans in their homes and then closed, repaying the taxpayer with a profit,” Kirk, R-Ill., said in a release.

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